

Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR

Mauricio Villamizar

Many central banks, particularly in the developing world, aim for exchange rate stability as a macroeconomic goal. However, most are reluctant to relinquish monetary policy autonomy, so they end up operating through both interest rate and foreign exchange interventions. But the use of multiple policy instruments does not necessarily equip monetary authorities with better tools to achieve their targets. On the contrary, their effects can potentially offset each other. Using daily data from the Central Bank of Colombia during the period of 1999-2012, I study the effects of simultaneous policies by first deriving new measures of monetary shocks and then determining their impact on economic activity. The main findings indicate that (i) while interest rate interventions have a significant impact on real and nominal

variables, foreign exchange interventions tend to have limited effects; and (ii) empirical anomalies, such as the price puzzle, are eliminated when properly accounting for the systematic responses of policy.

The opinions expressed here do not necessarily correspond neither to the Banco de la República nor its Board of Directors.